These regulatory mechanisms include: allocation of a fixed twenty five percent of loop costs to the federal jurisdiction (the frozen Subscriber Plant Factor[87]) even though, on a nationwide average, only 14 percent of all calls are interstate;[88] averaging prices over high and low cost locations (often throughout an entire state);[89] recovery of a significant portion of loop costs through high intrastate CCL and intraLATA toll prices; and large differences in local service charges for business and residence customers.[90]

The net result of forcing exchange carriers to provide "unbundled" dialtone loops before removing the pricing distortions used to promote universal service will be that exchange carrier customers will subsidize non-LEC local service customers that are served by new entrants using "unbundled" dialtone loops furnished by exchange carriers.[91] Thus, it is imperative that the Commission and state regulators act in concert to establish a new and competitively neutral method of ensuring universal service.

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87 47 C.F.R. Section 36.154(c).

88 This indicates the arbitrariness of the 75/25 division. GTE is not necessarily suggesting an 86/14 ratio of costs would be appropriate, inasmuch as the ratio varies widely from one location to another.

89 Even if new competitors are required to pay a fully compensatory price for "unbundled" dialtone loops, rate averaging will provide new entrants with guaranteed success in low cost areas since LEC prices are set far above cost to contribute to low prices in high cost areas.

90 Exchange carrier prices for local business services typically have been set at approximately three times the residence price, even though the cost differential is much less than that ratio. Such required rate level differentials are representative of the "value of service" concept employed by state regulators. This differential offers new entrants the opportunity to target business customers.

91 It is especially critical to remove pricing differentials between loops used for business and residence customers. Otherwise, a non-LEC using "unbundled" dialtone loops could offer a dramatically lower price to business customers and capture virtually all of the single line business, key system, and PBX trunk market.

In its recent *D. 80-286* comments, GTE described how the Commission and state regulators cooperatively can establish an open and genuinely competitive telecommunications environment without jeopardizing universal service.[92] The GTE plan is grounded in the principles of competitive and technological neutrality. It provides a framework conducive to multiple local service providers. The plan establishes a definition of universal service that can keep pace with changed conditions; permits all firms committing to serving any customer in a designated high cost locale to obtain support funding for the continuation of affordable service; ensures that such funding will be narrowly targeted; contains a market-driven mechanism that will permit such funding to diminish or be eliminated as new technology or more efficient providers emerge; obtains funding for universal service support in a competitively neutral manner; encourages competition by permitting resale of local loop facilities; and facilitates timely removal of the pricing distortions that prevent full participation in a competitive market by exchange carriers. Commission action to embrace the key principles of the GTE plan is needed coincident with examination of the issues associated with local loop "unbundling."

In summary: Rather than adopt MFS' narrowly focused proposal, which seeks to gain competitive advantage from the current imbalances in universal service support, the Commission should take action to remedy those deficiencies through the development of a new universal service policy that will promote, rather than impede, the development of local competition.

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[92] *D. 80-286*, GTE's Comments dated October 28, 1994, and GTE's Reply Comments dated December 2, 1994.

C. The Commission must move urgently to reform interstate common line cost recovery.

While various aspects of the MFS Petition raise jurisdictional questions, GTE is suggesting immediate action that comes squarely within the Commission's jurisdiction. The competitive distortion created by the current Part 69 rules governing common line recovery[93] must be addressed. This distortion was explicitly recognized by a 1993 Commission staff analysis:[94]

> Nontraffic-sensitive cost recovery raises significant rate structure and contribution and assistance issues and has become one of the most important and difficult areas from the beginning of the access charge regime. The emergence of competition and changes in technology since the early 1980s has only served to exacerbate the problem.[95]
>
> The issues raised by the recovery of nontraffic-sensitive costs through the per-minute CCL charge are likely to become more pressing in the future. First, the SLC is not indexed to inflation.... Second, the prospect of competition for the provision of the local loop raises serious questions about the current nontraffic-sensitive cost recovery approach, since competitors are likely to charge a flat rate for the local loop, while the LECs currently recover loop costs through a combination of their flat SLC and local rates and their per-minute CCL charges.... Finally, as the pressures of competition lead to Commission decisions that certain costs are more appropriately recovered through common line elements than through transport or special access rates, the uneconomic CCL charge will continue to be a barrier to accurate pricing signals and more efficient use of the network.[96]

The Commission must act quickly to address this competitive distortion embedded within its rules. As noted *infra*, twenty-seven states are involved in activities

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93 *See* 47 C.F.R. Parts 69.104 and 69.105.

94 *See Staff Analysis.*

95 *Id.* at 59.

96 *Id.* at 61-62.

authorizing or examining local competition. It is clearly past time for the Commission to revisit its rules concerning the interstate common line elements.

In summary: Commission action reforming interstate common line cost recovery is urgently needed.

Respectfully submitted,

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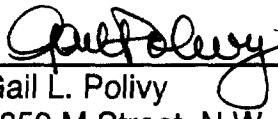
By 

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ATTACHMENT 1

Additional Costs Created by Unbundling Local Dialtone Service

There are several factors that cause the sum of costs for unbundled elements to be higher than the cost of the whole service. As examples, ordering, billing and repair procedures for the unbundled components of local exchange service will be different from, and incremental to, procedures used for today's local dialtone service. There also will be unique repair testing costs not currently experienced for bundled local exchange service.

Today, GTE tests local loops used for local residential switched services with a system that "reads" the condition of the loop through the GTE switch. If GTE no longer provides the switching associated with the loop, a different testing system, such as the one currently used for non-switched special access service, must be used.[1] This alternative testing system requires installation of a separate piece of equipment to isolate (disconnect) the loop from the CAP-provided transport. The equipment used to isolate the loop from the transport has an installed cost of approximately $70 per loop. While this is not a huge sum, it cannot be ignored, as MFS suggests.

MFS' own arguments (at 39-42) clearly prove that additional local loop equipment will be needed to accommodate interconnection to "unbundled" local dialtone service loops, even though those higher costs are not included in the proposed imputation formulas. The *MFS Petition* discusses (at 36-42) typical local loop network

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[1] *See MFS Petition* at 11 for testimony from a "US WEST official" confirming that other exchange carriers also would have to use separate testing systems.

architectures.[2] Three of these architectures are newer (double-ended pair gain, single-ended pair gain, remote switch used for pair gain) and are correctly described as representing "advances in loop technology." The newer architectures are "deployed to save money over the traditional copper pair system."

Interconnection with the two newest network architectures (the single-ended pair gain and the remote switch used for pair gain) will require abandoning the efficiencies gained through the use of newer technology and the re-introduction of separate pieces of equipment that are eliminated by adopting those architectures. This increases the cost of providing "unbundled" dialtone loops since equipment that is not needed for customers connected to the exchange carrier switch must be installed to allow separation of the customers served by a new local service provider.

In the case of the single-ended pair gain based on the TR-08 standard,[3] MFS proposes (at 39-40) that the exchange carrier either provide a separate single-ended pair gain device that would be compatible with the MFS switch and dedicate that device

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[2] The four architectures described are copper loop, double-ended pair gain, single-ended pair gain, and remote switch used for pair gain.

[3] GTE is not yet convinced that the introduction of TR-303 equipment will be the panacea that MFS (at 40) suggests since there is no uniform standard for the operations channel capability. This means that each equipment manufacturer still has the ability to differentiate its product by creating unique testing, monitoring, remote reconfiguration and alarm features.

to MFS' exclusive use;[4] or that the exchange carrier provide a Digital Cross-connect System ("DCS") and use that device to segregate the individual high capacity digital circuits into those carrying MFS customers and those carrying LEC customers.[5] Use of the first of these options would prevent the exchange carrier from monitoring and testing the local loop.[6] Solving this problem would require installation of back-to-back multiplexers (D-4 channel banks) in each DS-1 channel, as well as the installation of loop testing equipment that would allow each of the DS-0 channels to be isolated (from the transport to the new local service provider's switch) for testing.

In the case of the remote switch used for pair gain, MFS proposes[7] that the exchange carrier bypass the remote switch entirely. Instead, the LEC would provide separate multiplexing equipment -- along with associated high capacity digital circuits connecting the remote switch location with the central office -- and dedicate that new equipment to the exclusive use of the competitor.

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[4] *See also, MFS Petition*, at Appendix 2, Configuration C, Option 1. MFS apparently would specify the type of equipment that would be compatible with the MFS switch and the exchange carrier would apparently be required to purchase and install that equipment. If this equipment was not in use in the exchange carrier network, it would generate higher costs than would normally be incurred since it would not be likely that the exchange carrier could arrange for volume discounts from the manufacturer. Plus new costs associated with training and spare parts would be created.

[5] *See also, MFS Petition*, at Appendix 2, Configuration C, Option 2.

[6] As discussed *supra*, this would create an untenable situation since the exchange carrier -- which is accountable for prompt and effective repair activities -- would not have the ability to monitor and test local loops.

[7] At 39-40 and Appendix 2, Configuration C, Option 1; also Appendix 2, Configuration D.

Throughout its discussion of loop architecture interconnection arrangements, MFS expends considerable effort to dismiss the resulting inefficiencies and discount the associated costs. For example, MFS claims (at 40) that the loss of efficiency of using two partially filled multiplexer systems rather than one full system would not be significant. MFS is correct that the loss of efficiency in just one multiplexer system cannot accurately be reflected in a price calculated for an entire wire center and rounded to the nearest penny.

However, as new parties enter the local services market, the situation MFS describes can occur in thousands of locations. This means that the average fill factor used in cost studies must be lowered. This loss of efficiency can hardly be ignored and must be reflected in the price. Moreover, the two network architectures that require the additional costs are the two newest and most likely to be used in the future.

The cross-connect between an exchange carrier and an interconnecting firm, or the P_X factor in the MFS formula, represents another new cost not present in existing local dialtone service. In establishing the residually priced unbundled loop element, MFS would have the price for the cross-connect service element subtracted from a current price. However, since there is no such cost component reflected today in the price for local dialtone service, subtracting this new cost element would be erroneous methodology.

MFS also attempts to minimize the additional costs by explaining (at 39) that "the required equipment may already be installed," implying that if a piece of equipment has already been purchased there is no associated cost in using that equipment to provide service to MFS. Of course, there is an associated cost. If equipment is already in place, it exists to meet a forecast of other needs. Those other service needs did not

contemplate the re-introduction of less-than-optimal local loop architecture. Dedicating existing equipment to a competitor's use simply means that additional equipment must be purchased and installed to meet the original forecasted needs.

MFS simply proves that there are additional costs that must be recovered, regardless of whether new equipment must be installed or existing equipment may be used. Since these additional costs are not reflected in the proposed imputation formulas, the formulas are fatally flawed.

Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Comments" have been mailed by first class United States mail postage prepaid, on the 10th day of April to the following parties:

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